

DG 00-283

NORTHERN UTILITIES, INC.

Petition for Authority to Issue Short-Term Debt,
on an Interim Basis, in an Amount not to Exceed \$30,000,000

Order Approving Increase in Short-Term Debt

O R D E R N O. 23,653

March 16, 2001

On December 18, 2000, Northern Utilities, Inc.

(Northern), a public utility organized and existing under the laws of the State of New Hampshire and primarily engaged in the business of distributing natural gas in certain cities and towns in New Hampshire and Maine, filed with the New Hampshire Public Utilities Commission (Commission) a Petition for Authority to Issue Short-Term Debt, on an Interim Basis, in an Amount not to Exceed \$30,000,000. Northern requests authority, pursuant to RSA 369:7 and NH Admin. Rule Puc 201.05, to issue and sell short-term notes such that it would have, in the aggregate, short-term debt in an amount not to exceed \$30,000,000, until such time as Northern is able to obtain additional permanent financing through the issuance of long-term securities.

NH Admin. Rule Puc 507.08 provides that no utility shall issue or renew short-term debt if such debt "exceeds 10% of the utility's net fixed plant without prior [C]ommission approval pursuant to Puc 201.05." Northern's petition states that as of the

date of the filing, its current outstanding short-term debt was \$19.7 million and was within the ten percent limitation, which the Company calculates to be a maximum amount of approximately \$20.5 million.

Northern seeks authority to issue such additional short-term debt for the purpose of making necessary capital expenditures. Northern avers that the high costs of gas, which it has been subject to during the past year, have significantly increased the amount of short-term debt carried by Northern while it awaits collection of such costs from its customers. Northern states that absent the increase in short-term debt, Northern will be unable to make necessary capital expenditures, or will only be able to do so by using funds necessary for other operational purposes, by using working capital, or by deferring payments. Northern further states that the increase is necessary in order for Northern to complete its plans for long-term financing, and to pursue Commission approval thereof, after which Northern's outstanding short-term debt will be in compliance with the provisions of NH Admin. Rule Puc 507.08.

Northern participates in a Funds Pooling Agreement with Bay State Gas Company, Inc., its parent company. The additional short-term borrowing would be under the same terms and conditions as those currently in place through the Funds Pooling Agreement.

In its petition, Northern's calculation of its ten percent

limitation includes a Purchase Acquisition Adjustment of approximately \$90 million and associated amortization of \$3,810,000 added to net plant related to the merger of Northern with NIPSCO Industries, Inc. and Northern Indiana Public Service Company approved by the Commission in Order No. 22,983, *Re Northern Utilities, Inc.*, 83 NH PUC 401 (1998). In that Order, the Commission deferred its decision on the inclusion of an acquisition premium in rate base but noted that Northern would be required to substantiate merger-related savings to ratepayers before any part of an acquisition premium could be included in rate base or reflected in its capital structure. The ten percent limitation, without the Purchase Acquisition Adjustment, is approximately \$11.8 million, significantly less than the \$20.5 million net plant figure calculated by Northern in its petition. On December 22, 2000, Northern's short-term debt increased to \$26 million, well in excess of the ten percent limitation as calculated with or without the net Purchase Acquisition Adjustment.

In response to Commission Staff discovery requests, Northern indicated that its weighted cost of capital of 9.76% would be lowered to 9.59% as a result of the increase in short-term debt using Northern's capital structure as of September 30, 2000. A reduction in the cost of capital would directly benefit Northern's ratepayers in a general rate case. Northern, however, expects to refinance a portion of the short-term debt using long-term financing

prior to such a general rate filing. Northern's petition states that it plans to file a petition with the Commission on or before March 1, 2001 which will detail its plan for long-term financing.

We are concerned that Northern included the acquisition premium in calculating the borrowing limits on short-term debt and that, even given inclusion of the net Purchase Acquisition Adjustment, Northern violated the ten percent limitation on short-term debt only days following its filing requesting an increase in short-term borrowing authority.

Northern should not include the net Purchase Acquisition Adjustment in the calculation of net plant when determining the short-term debt limitation under NH Admin. Rule Puc 507.08 until such time as the Commission addresses the treatment of the acquisition premium. Northern should take this into consideration when developing its refinancing plans to ensure that short-term borrowing is in compliance with Commission rules. Otherwise, Northern must again request a waiver of NH Admin. Rule Puc 507.08. Furthermore, Northern is not to exceed short-term borrowing limitations prior to receiving Commission approval.

On February 23, 2001, the Commission, by Order No. 23,641 (Docket No. DG 01-019), approved Northern's Petition for Authority to Extend the Term of its Revolving Credit Agreement for an interim period, pending Northern's completion

of its plans for long-term financing and pursuit of the Commission's approval thereof. The Commission's approval of the extension was to allow Northern sufficient time to make its long-term financing petition with the Commission.

Consistent with that decision, we will approve Northern's request for authority to issue additional short-term debt, not to exceed \$30 million. We find that granting Northern's request for waiver serves the public interest and will not disrupt the orderly proceeding of the Commission. The Commission's approval will enable Northern to continue to make necessary capital expenditures and fund operations, pending refinancing. The increase in the short-term debt will have no effect on Northern's ratepayers, as a more optimal capital structure should be created as part of Northern's refinancing.

To insure a timely filing of the long-term refinancing petition, Northern's authority to issue short-term debt of up to \$30 million will be effective through June 30, 2001 only. As of July 1, 2001, absent Commission approval of a Northern petition requesting otherwise, Northern's authority to issue short-term debt will be ten percent of net fixed plant, excluding any acquisition premium(s), in accordance with NH Admin. Rule Puc 507.08.

Based upon the foregoing, it is hereby

ORDERED, that Northern's Petition for Authority to Issue Short-Term Debt, on an Interim Basis, in an Amount not to Exceed \$30,000,000 is APPROVED pursuant to RSA 369:7 and NH Admin. Rules Puc 507:08 and Puc 201.05; and it is

FURTHER ORDERED, that such authority will remain in effect until June 30, 2001, after which short-term debt is not to exceed 10% of Northern's net fixed plant, the calculation of which is not to include any acquisition premium(s); and it is

FURTHER ORDERED, that Northern shall cause a copy of this Order to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than March 22, 2001 and to be documented by affidavit filed with this office on or before March 29, 2001.

By order of the Public Utilities Commission of New Hampshire this sixteenth day of March, 2001.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary